

INDEPENDENT FACTORS LTD.

ANNUAL REPORT to SHAREHOLDERS

and

Consolidated Financial Statements for

The Year Ended 31 Dec. 1986

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INDEPENDENT FACTORS LTD.

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THE FIRST LENDERS OF EQUITY: THE ORIGINAL EQUITY

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FACTORERS

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If You Need Money - See Your Banker.

IF YOU NEED EQUITY - SEE US - INDEPENDENT FACTORS LTD.

- WE PROVIDE THE WAY TO FINANCIAL PROSPERITY, BY:

- EQUITY FACTORING:

- EMPLOYEE EQUITY INCENTIVE PLANS

- FINANCIAL STABILITY PLANS

- BALANCE SHEET STRENGTHENING

Financially stable businesses create stable market systems.

PRESIDENT'S REPORT TO THE SHAREHOLDERS

EQUITY FACTORING: WHAT IT IS

When you borrow money to finance business expansion, you go to a Bank or other lenders of money.

Independent Factors Ltd. has gradually built up a business whereby it lends equity, not money, to finance businesses. Its equity base is its publicly traded shares. In these few paragraphs, I shall try to show how lending equity is developing, how it compares with early money lending, and why it is essential for financial stability in market systems.

The lending of money began in a number of ways. One early form of lending evolved from the sale of merchandise and goods on credit. From this developed factoring - the discounting for cash - of accounts receivable. From these beginnings, and the practices of the goldsmiths, banking and lending money - the nominal way to handle savings - has become a very simple, reliable, safe way for the average saver to hold savings.

There is as yet no equally safe, simple, reliable means to deposit and retract savings in equity. At least, that was so until INDEPENDENT FACTORS LTD.

What we have done is to create an equity deposit/lending business that is as safe, simple, and reliable for equity investment as the bank deposit system is for the money or nominal form of saving. That requires a clear understanding of the differences between money and equity.

We contend that there can easily be stable market systems free of the so-called business

cycle. Since the business cycle is caused by the cyclical variation of the liabilities/equity ratio, on the titles side of the balance sheet, and the (money and debt)/other assets ratio on the asset side, the stabilization of these will stabilize your business, and your business thus stabilized will contribute financial stability to its market area.

It follows that if all businesses are stable, the market is stable. This rather easily attained condition should not be difficult to maintain once we all understand something of the above ratios. We cannot accomplish our object of a stable market, however, until we have in fact built the sturdy financial structures that give us financial stability and that work in practice.

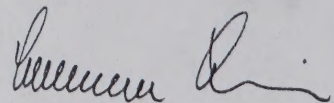
INDEPENDENT FACTORS LTD., now in operation for a decade - and operating as a publicly traded equity investment vehicle for the past six years plus, has shown that equity factoring - even in its rudimentary stages of development - can be and is a very profitable, and easily workable way to achieve financially stable markets.

INDEPENDENT FACTORS LTD. IS THE FIRST - NOTE IT WELL - :THE ORIGINAL EQUITY FACTORING COMPANY IN EXISTENCE.

That is why we say:

WHEN YOU NEED EQUITY, COME TO INDEPENDENT FACTORS.

I have saved the last word for our shareholders. Our efforts are directed toward giving you a safe reliable investment which is modestly liquid, gains well in the market, and has a stable value. If we succeed, equity factoring should be a major growth industry, and INDEPENDENT should be its leader.



INDEPENDENT FACTORS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 1986



DUNWOODY & COMPANY

Internationally
DUNWOODY ROBSON McGLADREY & PULLEN
Chartered Accountants
1408 Canyon Street, P.O. Box 1175, Creston, B.C.,
Canada V0B 1G0
Telephone: (604) 428-2248

AUDITORS' REPORT

TO THE SHAREHOLDERS

INDEPENDENT FACTORS LTD.

We have examined the consolidated balance sheet of Independent Factors Ltd. as at 31 December 1986 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at 31 December 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Dunwoody & Company

Creston, B.C.
27 February 1987

CHARTERED ACCOUNTANTS

INDEPENDENT FACTORS LTD.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 1986

	<u>1986</u>	<u>1985</u>
SALES	\$5,222,848	\$5,952,015
COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES	<u>4,809,636</u>	<u>5,450,838</u>
	413,212	501,177
OTHER INCOME	<u>105,342</u>	<u>50,865</u>
	<u>518,554</u>	<u>552,042</u>
OTHER EXPENSES		
Depreciation	61,678	50,206
Amortization of goodwill	883	883
Interest on long term debt	26,266	25,006
Other interest	<u>26,141</u>	<u>37,760</u>
	<u>114,968</u>	<u>113,855</u>
	403,586	438,187
SHARE OF EARNINGS (LOSSES) OF COMPANIES ON EQUITY BASIS	<u>(29,040)</u>	<u>41,068</u>
CONSOLIDATED INCOME BEFORE INCOME TAXES	374,546	479,255
Income taxes	<u>93,585</u>	<u>105,519</u>
CONSOLIDATED INCOME	280,961	373,736
MINORITY INTEREST	<u>98,966</u>	<u>100,363</u>
CONSOLIDATED NET INCOME FOR THE YEAR	181,995	273,373
Retained earnings, beginning of year	<u>931,117</u>	<u>692,764</u>
	1,113,112	966,137
Dividends	<u>36,007</u>	<u>35,020</u>
RETAINED EARNINGS, END OF YEAR	<u>\$1,077,105</u>	<u>\$ 931,117</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.25</u>	<u>\$ 0.39</u>

INDEPENDENT FACTORS LTD.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 1986

	<u>1986</u>	<u>1985</u>
ASSETS		
CURRENT		
Cash	\$ 189,554	\$ 93,704
Marketable securities	5,606	5,227
Accounts receivable	732,746	989,834
Inventories	1,734,270	1,806,483
Prepaid expenses	<u>10,661</u>	<u>14,044</u>
	2,672,837	2,909,292
LONG TERM INVESTMENTS, note 2	220,394	224,021
FIXED, note 3	600,519	608,415
GOODWILL, note 4	<u>22,968</u>	<u>23,851</u>
	<u>\$3,516,718</u>	<u>\$3,765,579</u>
LIABILITIES		
CURRENT		
Bank indebtedness, note 5	\$ 21,318	\$ 332,041
Accounts payable	468,146	574,915
Income taxes	46,255	76,008
Current portion of long term debt	<u>80,356</u>	<u>85,595</u>
	616,075	1,068,559
LONG TERM DEBT, note 6	<u>155,660</u>	<u>225,955</u>
	771,735	1,294,514
MINORITY INTEREST	<u>391,628</u>	<u>303,262</u>
	<u>1,163,363</u>	<u>1,597,776</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL, note 7	1,232,225	1,192,661
CONTRIBUTED SURPLUS	44,025	44,025
RETAINED EARNINGS	<u>1,077,105</u>	<u>931,117</u>
	2,353,355	2,167,803
	<u>\$3,516,718</u>	<u>\$3,765,579</u>
SIGNIFICANT ACCOUNTING POLICIES, note 1		
CONTINGENT LIABILITIES, note 8		
DIRECTORS REMUNERATION, note 9		

Approved on behalf of the Board:

Lawrence Chen, Director

DeKapl, Director

INDEPENDENT FACTORS LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 1986

	<u>1986</u>	<u>1985</u>
OPERATING ACTIVITIES		
Operations		
Net income for the year	\$181,995	\$ 273,373
Items not involving cash		
Amortization of goodwill	883	883
Depreciation	61,678	50,206
Minority interest	98,966	100,363
Cash provided by operations	<u>343,522</u>	<u>424,825</u>
Changes in non-cash working capital balances		
Marketable securities	(379)	12,946
Accounts receivable	257,088	(288,342)
Inventories	72,213	(361,680)
Prepaid expenses	3,383	(3,084)
Accounts payable	(106,769)	21,686
Income taxes	(29,753)	23,149
Current portion of long term debt	(5,239)	36,531
Cash provided by operating activities	<u>534,066</u>	<u>(133,969)</u>
FINANCING ACTIVITIES		
Issue of common shares	39,564	147,560
Purchase of common shares	-	(27,893)
Increase (decrease) in long term debt	(70,295)	97,565
Dividends	(36,007)	(35,020)
Increase (decrease) in minority interest	(10,600)	300
	<u>(77,338)</u>	<u>182,512</u>
INVESTING ACTIVITIES		
Decrease (increase) in long term investments	3,627	(7,626)
Purchase of fixed assets	(53,782)	(178,413)
	<u>(50,155)</u>	<u>(186,039)</u>
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	406,573	(137,496)
Cash and equivalents, beginning of year	(238,337)	(100,841)
CASH AND EQUIVALENTS, END OF YEAR	<u>\$168,236</u>	<u>\$(238,337)</u>
Represented by:		
Cash	\$189,554	\$ 93,704
Bank indebtedness	21,318	332,041
	<u>\$168,236</u>	<u>\$(238,337)</u>

INDEPENDENT FACTORS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 1986

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the Company:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiary companies. Acquisitions are consolidated from the date of acquisition applying the purchase method. All significant intercompany transactions and accounts have been eliminated.

(b) Marketable Securities

Marketable securities are stated at cost. Their market value at 31 December 1986 was \$5,679 (1985 - \$7,003).

(c) Inventories

Inventories are stated at the lower of cost and net realizable value with cost being determined on the first-in, first-out basis.

(d) Long Term Investments

Investments in companies in which the Company has significant influence are accounted for by the equity method, by which the original cost of the shares is adjusted for the Company's share of earnings or losses since significant influence was acquired.

(e) Fixed Assets

Fixed assets are stated at cost and depreciation is provided using the diminishing balance method at the following rates:

Buildings	- 5 and 10%
Equipment	- 20%
Computer equipment	- 30%
Automotive equipment	- 30%

(f) Goodwill

The amount by which the purchase price of one of the subsidiary companies exceeds the net identifiable assets acquired is treated as goodwill and is amortized over its estimated useful life of thirty years using the straight line method.

INDEPENDENT FACTORS LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 1986

2. LONG TERM INVESTMENTS

	1986	1985
Shares in related companies	\$ 760	\$ 760
Share of earnings in companies accounted for using the equity basis	19,744	48,784
Loans to related companies	143,970	139,609
Other loans	55,920	34,868
	<u>\$ 220,394</u>	<u>\$ 224,021</u>

3. FIXED ASSETS

	1986		1985	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 102,825	\$ -	\$102,815	\$ -
Buildings	548,874	203,724	548,874	181,801
Equipment	224,264	132,889	206,128	111,633
Computer equipment	26,280	21,863	26,280	19,970
Automotive equipment	128,735	71,973	93,089	55,367
	<u>1,030,968</u>	<u>430,449</u>	<u>977,186</u>	<u>368,771</u>
Cost less accumulated depreciation	\$600,519		\$608,415	

4. GOODWILL

	1986	1985
Cost	\$ 26,500	\$ 26,500
Less accumulated amortization	<u>3,532</u>	<u>2,649</u>
	<u>\$ 22,968</u>	<u>\$ 23,851</u>

5. BANK INDEBTEDNESS

	1986	1985
Bank loans	\$ 20,000	\$302,159
Overdraft	<u>1,318</u>	<u>29,882</u>
	<u>\$ 21,318</u>	<u>\$332,041</u>

The bank loans are secured by a general assignment of book debts, inventories and proceeds of certain fire and life insurance policies owned by the Company and its subsidiaries.

INDEPENDENT FACTORS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 1986

6. LONG TERM DEBT

Bank loans, repayable in monthly instalments, of \$5,859 plus interest at prime plus 1%, secured by a demand debenture and collateral mortgage on land and buildings
Due to shareholder, repayable at \$1,000 monthly including interest at prime plus 2%

Current portion

	<u>1986</u>	<u>1985</u>
	\$216,992	\$289,452
	<u>19,024</u>	<u>22,098</u>
	236,016	311,550
	<u>80,356</u>	<u>85,595</u>
	<u>\$155,660</u>	<u>\$225,955</u>

Principal payments due in the next four years are as follows:

1987 -	\$ 80,356
1988 -	79,632
1989 -	67,465
1990 -	8,563
	<u>\$236,016</u>

7. SHARE CAPITAL

Authorized 3,000,000 Class "A" common, voting shares of no par value
5,000,000 Class "B" common, non-voting shares of no par value
400,000 8% non-cumulative, redeemable preferred shares of par value of \$5 each
Issued 720,144 Class "A" common, voting shares (1985 - 707,304 shares)

	<u>\$1,232,225</u>	<u>\$1,192,661</u>
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During the year 12,840 (1985 - 56,502) common shares were issued for a cash consideration of \$39,564 (1985 - \$147,560). During the prior year 42,912 common shares were repurchased for a cash consideration of \$27,893.

INDEPENDENT FACTORS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 1986

8. CONTINGENT LIABILITIES

The Company is contingently liable as guarantor of bank advances to related third parties of up to \$185,000 (1985 - \$185,000). Advances as at 31 December 1986 amounted to \$92,230 (1985 - \$33,544).

9. DIRECTORS REMUNERATION

Remuneration to directors of the Company amounted to \$2,400 (1985 - \$2,000) during the year.

Remuneration to directors who are active managers of the Company's subsidiaries amounted to \$126,252 (1985 - \$127,926) during the year.